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BRIEF

PRESENTED TO THE

110 FEDERAL PROVINCIAL TASK FORCE

ON

STUDENT ASSISTANCE

BY

THE AD HOC COMMITTEE ON STUDENT ASSISTANCE OF THE

710 ASSOCIATION OF UNIVERSITIES AND COLLEGES OF CANADA

JULY 1980

MEMBERS OF THE COMMITTEE:

Willard Allen, Chairman
Kathryn M. Fitzpatrick
Denis Lauzon
Gregory Marcotte
R.A. Stead
Robert Patry, secretary

SUMMARY OF RECOMMENDATIONS

A) Major recommendations

1. That the Canada Student Loans Program be replaced by a Canada Student Bursary Program.
2. That provincial student assistance programs be studied with a view to replacement by provincial grant and/or bursary programs.

B) The following specific recommendations may be applied to the present system or incorporated into any revised system.

1. That any recoveries of assistance be dependent upon the student's ability to repay.
2. That ceilings on assistance be removed and that the total recognized needs of students be met.
3. That all barriers to interprovincial mobility of students be removed from student assistance programs.
4. That students be eligible for federal and provincial government assistance if they are registered in any course of studies lasting at least 6 weeks.
5. That part-time students who enrol in a course of studies of not less than six consecutive weeks be eligible for federal and provincial student assistance.
6. That a maximum parental contribution be established based on the effective parental income but independent of the number of dependents in post-secondary institutions.
7. That the parental contribution table be adjusted to ensure that expected parental support is not unreasonable in terms of the family budget.
8. That any barriers to the availability of welfare assistance to students enrolled in university programs be removed.
9. That a revised student aid program recognize the special needs of these students and coordinate federal student aid assistance with the various other federal and provincial funding programs providing assistance.
10. That the federal and provincial governments provide an emergency fund to each recognized post-secondary institution, such emergency fund to be allocated to needy students at the discretion of an appointed institution official.

SUMMARY OF RECOMMENDATIONS

Major Recommendations

[illegible]

INTRODUCTION

The ad hoc committee on student assistance of the Association of Universities and Colleges of Canada commends the federal and provincial governments for undertaking a review of existing programs of student financial assistance. Major deficiencies with the existing programs are apparent. The committee hopes that the implementation of much needed alterations will ensure that the needs of that segment of society for which the programs were conceived and developed, namely post-secondary students, will be met in a just and equitable fashion.

Equal opportunity for post-secondary education is a principle widely accepted and supported in Canada. Accordingly, it is mandatory that adequate public funds be made available to ensure that those qualified to pursue studies at this level will not be prevented or inhibited from doing so because of a lack of personal financial resources.

The committee believes that programs of student assistance should be structured so as to provide the greatest benefits to students with the greatest needs. The present mixture of grants and loans may result, as in the Ontario system, in high repayments being required of students with large needs (who obtain loans as well as grants) while no repayments are required of those with lesser needs (who obtain only grants).

In this brief, the committee lists a number of inadequacies in present student assistance programs, together with specific recommendations for improvements. As a major change, we recommend that loan programs be converted to bursary programs. For a first step, we propose a Canada Student Bursary Program, with partial recovery of costs through deferred income taxation. This will result in major advantages to students, with little change in government costs once the initial costs of implementation have been met.

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PRESENT SYSTEMS

i) High ratio of costs to benefits

The costs to government of maintaining present loan programs and the costs to students of repaying negotiated loans have both become unreasonably high in relation to the benefits obtained. The latest available CSLP annual report shows that for the 1977-78 year the net cost of the program to the federal government represented 32.4% of the certificates negotiated in that year; in 1978-79, this proportion had risen to 37%. In 1978-79, the value of loans issued by the federal government increased by $18.4 million over the preceding year; however, the total cost of maintaining the CSLP in 1978-79 rose by $12.8 million over 1977-78. The increase in net costs to the federal government represented fully 68.4% of the total dollar increase awarded to students in 1978-79.

For the operating year ending June 30, 1980, the interest rate paid to the banks by the federal government in support of the CSLP was 10.75%. This interest rate, which is adjusted annually, will in all likelihood increase as of July 1, 1980. The cost to the federal government is approaching fifty cents for each loan dollar provided, with no additional benefits accruing to students.

ii) Debt loads

The maximum loans available to students have not been raised in recent years, partly because of government concern about the effects high debt loads will have on students. The committee shares this concern but would further suggest that repayable loans even in amounts far less than the present maximum of $9,800 represent an unmanageable burden for many students. Even for the vast majority of students who accept the responsibility to repay their loans upon graduation or upon termination of studies, high debt loads impose heavy strains during the repayment period which, on average, coincides with the period of lowest career earnings and high capital needs to establish a home and family.

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The committee recommends that <u>any recoveries of assistance be dependent upon the student's ability to repay.</u>

The committee further recommends that <u>ceilings on assistance be removed and that the total recognized needs of students be met.</u>

iii) <u>Inter-provincial mobility</u>

Some provincial student assistance programs discriminate against students who pursue their education in another province. The committee considers any restrictions to inter-provincial mobility unfair to students and contrary to the national interest.

The committee recommends that <u>all barriers to inter-provincial mobility of students be removed from student assistance programs.</u>

To cover the assistance costs for students who pursue their post-secondary studies outside of their home province, the committee suggests that the province of residence be responsible for providing student assistance for the first year of studies in another province, and that the receiving province be responsible for providing assistance in subsequent years.

iv) <u>Length of course of studies</u>

Present conditions of the CSLP require a student to be registered in a course of studies of not less than 26 weeks in a given academic year to be eligible for assistance under the plan. Provisions have been made to allow students to qualify for assistance if they are registered in a semester lasting at least 13 weeks which forms part of a longer program. Students who register for courses during intersession or summer session are therefore not eligible for government assistance.

The committee believes that a government assistance program should recognize the needs of students taking post-secondary courses which are part of their academic program during the late spring and summer periods.

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Accordingly, the committee recommends that students be eligible for federal and provincial government assistance if they are registered in any course of studies lasting at least six weeks.

v) Part-time students

Part-time students are excluded from the provisions of the Canada Student Loans Program and in only four provinces are they eligible for assistance under provincial student aid schemes. While most part-time students are able to finance their own studies through employment earnings, there are some students unable or unwilling to study full-time who require financial assistance to cover the costs of part-time studies.

The committee recommends that part-time students who enrol in a course of studies of not less than six consecutive weeks be eligible for federal and provincial student assistance.

vi) Parental contributions

The present requirements for parental contributions impose hardships upon low income families in two particular ways. Firstly, the tables of expected contributions begin at too low an income level, and rise too rapidly; and, secondly, for families with two or more students the total expected contribution is unreasonably high.

The committee recommends that a maximum parental contribution be established based on the effective parental income but independent of the number of dependents in post-secondary institutions.

The committee recommends that the parental contribution table be adjusted to ensure that expected parental support is not unreasonable in terms of the family budget.

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vii) Welfare recipients, handicapped students and native peoples

In some provinces, the coordination between student assistance and welfare assistance is inadequate. In some cases, welfare is denied to students who enrol in programs of two years or more in duration. The committee believes that the more advanced education and training a welfare recipient receives, the more the individual and society will benefit. Accordingly, the committee recommends that any barriers to the availability of welfare assistance to students enrolled in university programs be removed.

Handicapped students, native peoples and students on various forms of social assistance have special needs which may result in additional expenses. The committee recommends that a revised student aid program recognize the special needs of these students and coordinate student aid assistance with the various other federal and provincial funding programs providing assistance.

The two preceding recommendations relate to programs which are not the responsibility of the departments of education. The committee therefore, asks that the Task Force consider these recommendations and transmit them to the appropriate authorities.

viii) Emergency assistance

Situations often arise where students require immediate financial assistance to meet an emergency. Such situations cannot be foreseen and the plight of the concerned student is often serious by the time he or she turns to the educational institution for assistance. At the present time, institutions attempt to respond as best they can from their own resources to these emergency situations. However, they are often limited in their ability to provide the necessary help.

The committee recommends that the federal and provincial governments provide an emergency fund to each recognized post-secondary institution, such emergency fund to be allocated to needy students at the discretion of an appointed institution official. For the first year of the fund, the committee suggests that 1% of the total amount of government assistance provided in that year to the students registered at an institution be made available as a discretionary fund. The percentage allotment could be adjusted after the first year.

PROPOSED CANADA STUDENT BURSARY PROGRAM

The committee recommends that the present CSLP be replaced by a Canada Student Bursary Program (CSBP).

We acknowledge that a bursary program would result in much higher costs to the governments concerned, but suggest that these can be met in part or in total by a well-designed system of deferred income taxation. In Appendix A, an example of a bursary program with partial recovery is outlined; an estimate of costs and recoveries for the government and for students is also provided.

The present CSLP eligibility conditions and needs and resources assessment would be incorporated in the CSBP. The responsibility for the costs of post-secondary education to the individual student would remain primarily with the parent, guardian or immediate family and/or the student. Bursary assistance would be used to supplement the personal financial resources available to the student.

The bursary program would promote accessibility to post-secondary education and training opportunities so that no individual would be prevented from undertaking or pursuing such studies for financial reasons.

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The bursary program would take into account the students' ability to repay government assistance in a more equitable manner than does the present CSLP. It would also alleviate many of the students' fears about being saddled with a large debt which they may or may not be able to repay. By making the repayment of bursaries subject to the provisions of the Income Tax Act, the CSBP would ensure that the students who benefit the most, in financial terms, from their advanced studies, would repay the highest percentage of federal government support they received. Also, the CSBP would not exert any undue pressure to repay bursaries on students who are unable to secure employment following completion or termination of studies, or on students who accept low-income positions.

The bursary program would be sufficiently flexible to adapt to the changing economic and social conditions. Since government would no longer have to be concerned about the effects of large loans on students, the bursary program would ensure that the real financial needs of students are met. Ceilings on the total amount of government assistance available, either on an annual basis or in total, would thus be eliminated.

Under the bursary program, cost of student assistance will no longer be subject to the fluctuation of interest rates. The estimate of costs and recoveries given in the appendix will also demonstrate that, once the federal government commitments to the present loans program were terminated, the costs of the bursary program would be approximately the same as the present loans-based program.

The committee recommends that <u>provincial student assistance programs be studied with a view to replacement by provincial grant and/or bursary programs.</u>

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In the absence of detailed statistics, attempts have not been made to propose specific programs or to estimate costs of converting to a bursary program where repayment is tied to income tax. It is clear however that the shift from loans to bursaries in federal government support would affect the current programs in the provinces, and in some cases reduce their costs.

APPENDIX "A"

Canada Student Bursary Program

We give here an example of a Canada Student Bursary Program with partial recovery through deferred income tax. It assumes that bursaries are awarded in the same amounts and on the same needs basis as loans provided under the Canada Student Loans Program in 1977-78 (the last year for which an annual report has been published).

For this example, we have assumed that federal tax only is included in the recovery. Full-time students would become liable for federal tax in the taxation year in which they ceased to be full-time students for six months or more, and they would continue to make payments for a total of eight years. Part-time students and students in attendance at a post-secondary institution for less than six months would add the total amount of bursary received to their taxable income in the year in which the bursary was awarded.

Each year of the eight year period, tax would be based upon 40% of the cumulative total of bursaries awarded (up to a maximum of $10,000) at the marginal tax rate of the former student in that taxation year. A student with no taxable income would pay nothing; the average student would pay about 60% of his or her total bursary.

We have used a computer program to estimate costs and recoveries for the government and for students as a group after graduation under the present Canada Student Loans Program and under the proposed Canada Student Bursary Program. Simplified assumptions have been made for the rate of transfer of loans from "A" to "B" category for repayment and death/default rates, and for tax recovery under the bursary program. The program allows for substitution of other assumptions, and for use of any desired interest rate; we show here calculations for 11% and 13%.

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The systems stabilize after ten years, and because of our simplified model the year-to-year breakdown for that first period is uncertain, although the total for the period is reliable.

Under the 11% interest rate, the total extra cost to the government (bursary over loan) is $572 million over the ten years, with an annual saving thereafter of $7 million. During the first ten years total student savings amount to $536 million with an annual saving thereafter of $82 million.

Under a 13% interest rate the comparable figures are $504 million extra for the government and savings of $588 million for the students in the first decade, and annual savings thereafter of $14 million for the government and $92 million for the students.

Obviously existing loans, issued in 1979-80 or earlier, will represent additional costs to the government and to former students for some years. Since these costs are the same for both cases presented here for comparison purposes, we omit them and show only the costs for new bursaries issued in 1980-81 and following.

It is apparent that in the long run the bursary program is very advantageous for students in the total amount they will be required to pay as a group, in the limitation placed upon the recovery for any student, and in the correlation of the amount recovered with ability to pay.

At the same time, the annual direct cost to government <u>once the transition period is completed</u> is decreased modestly. The difficulty is that in the transition period recoveries would be limited while payments would be large. If the transition cost to government were obtained by borrowing, the debt servicing charge would amount to (ca) $50 million annually, a net

increase in annual government cost. However, the savings to students would be considerably larger.

In our view, the bursary program is socially desirable.

PROJECTED COSTS ($1000'S) OF FUTURE LOAN-BURSARY MIXES IN STUDENT ASSISTANCE

YEAR	INT	NEW LOANS	'A' AMOUNT	'B' AMOUNT	NET DEFAULT	GOVT COST	STUDENT COST	NEW BURSARIES	GOVT COST	STUDENT COST	--TOTAL COSTS-- GOVT	STUDENTS
1	11.0	135000	135000	0	0	14850	0	0	0	0	14850	0
2	11.0	135000	270000	0	0	29700	0	0	0	0	29700	0
3	11.0	135000	337500	64800	2700	40122	15317	0	0	0	40122	15317
4	11.0	135000	337500	183946	7664	45632	45339	0	0	0	45632	45339
5	11.0	135000	337500	282087	11754	50172	74160	0	0	0	50172	74160
6	11.0	135000	337500	358999	14958	53729	101828	0	0	0	53729	101828
7	11.0	135000	337500	414394	17266	56291	128389	0	0	0	56291	128389
8	11.0	135000	337500	447924	18664	57841	153888	0	0	0	57841	153888
9	11.0	135000	337500	459175	19132	58362	166377	0	0	0	58362	166377
10	11.0	135000	337500	459175	19132	58362	166377	0	0	0	58362	166377
11	11.0	135000	337500	459175	19132	58362	166377	0	0	0	58362	166377
12	11.0	135000	337500	459175	19132	58362	166377	0	0	0	58362	166377
13	11.0	135000	337500	459175	19132	58362	166377	0	0	0	58362	166377
14	11.0	135000	337500	459175	19132	58362	166377	0	0	0	58362	166377
15	11.0	135000	337500	459175	19132	58362	166377	0	0	0	58362	166377

ASSUMPTIONS FOR THIS RUN:
NO NEW BURSARIES, $135 MILLION IN NEW LOANS EACH YEAR
INTEREST RATE IS 11% EACH YEAR, TERM OF LOANS IS 6 YEARS
50% OF LOANS BECOME 'B' LOANS (I.E. ARE BEING REPAYED) AFTER 2 YEARS, THE OTHER 50% AFTER 3 YEARS.
THERE IS A 4% DEFAULT RATE ON ALL LOANS EACH YEAR.

PROJECTED COSTS ($1000'S) OF FUTURE LOAN-BURSARY MIXES IN STUDENT ASSISTANCE

YEAR	INT	NEW LOANS	'A' AMOUNT	'B' AMOUNT	NET DEFAULT	GOVT COST	STUDENT COST	NEW BURSARIES	GOVT COST	STUDENT COST	--TOTAL COSTS-- GOVT	STUDENTS
1	11.0	0	0	0	0	0	0	135000	135000	0	135000	0
2	11.0	0	0	0	0	0	0	135000	135000	0	135000	0
3	11.0	0	0	0	0	0	0	135000	130680	4320	130680	4320
4	11.0	0	0	0	0	0	0	135000	121770	13230	121770	13230
5	11.0	0	0	0	0	0	0	135000	112320	22680	112320	22680
6	11.0	0	0	0	0	0	0	135000	102330	32670	102330	32670
7	11.0	0	0	0	0	0	0	135000	91800	43200	91800	43200
8	11.0	0	0	0	0	0	0	135000	80730	54270	80730	54270
9	11.0	0	0	0	0	0	0	135000	69120	65880	69120	65880
10	11.0	0	0	0	0	0	0	135000	57240	77760	57240	77760
11	11.0	0	0	0	0	0	0	135000	51300	83700	51300	83700
12	11.0	0	0	0	0	0	0	135000	51300	83700	51300	83700
13	11.0	0	0	0	0	0	0	135000	51300	83700	51300	83700
14	11.0	0	0	0	0	0	0	135000	51300	83700	51300	83700
15	11.0	0	0	0	0	0	0	135000	51300	83700	51300	83700

ASSUMPTIONS FOR THIS RUN:
NO NEW LOANS, $135 MILLION IN NEW BURSARIES EACH YEAR
50% OF BURSARIES ENTER THE TAXATION PHASE AFTER 2 YEARS, THE OTHER 50% AFTER THREE YEARS
ONCE AN AMOUNT HAS ENTERED THE TAXATION PHASE, 40% OF THE AMOUNT IS ADDED TO TAXABLE INCOMES FOR EACH OF EIGHT YEARS.
THE MARGINAL FEDERAL TAX RATES OF STUDENTS PAYING THE EIGHT YEARS OF TAX ON A BURSARY INCREASE FROM 16% FOR THE FIRST YEAR TO 22% FOR THE SEVENTH AND EIGHTH YEARS.

PROJECTED COSTS ($1000'S) OF FUTURE LOAN-BURSARY MIXES IN STUDENT ASSISTANCE

YEAR	INT	NEW LOANS	'A' AMOUNT	'B' AMOUNT	NET DEFAULT	GOVT COST	STUDENT COST	NEW BURSARIES	GOVT COST	STUDENT COST	--TOTAL COSTS-- GOVT	STUDENTS
1	13.0	135000	135000	0	0	17550	0	0	0	0	17550	0
2	13.0	135000	270000	0	0	35100	0	0	0	0	35100	0
3	13.0	135000	337500	64800	2700	46926	16210	0	0	0	46926	16210
4	13.0	135000	337500	184333	7681	52554	47982	0	0	0	52554	47982
5	13.0	135000	337500	283502	11813	57223	78482	0	0	0	57223	78482
6	13.0	135000	337500	361800	15075	60910	107763	0	0	0	60910	107763
7	13.0	135000	337500	418628	17443	63585	135872	0	0	0	63585	135872
8	13.0	135000	337500	453289	18887	65217	162857	0	0	0	65217	162857
9	13.0	135000	337500	464985	19374	65768	176075	0	0	0	65768	176075
10	13.0	135000	337500	464985	19374	65768	176075	0	0	0	65768	176075
11	13.0	135000	337500	464985	19374	65768	176075	0	0	0	65768	176075
12	13.0	135000	337500	464985	19374	65768	176075	0	0	0	65768	176075
13	13.0	135000	337500	464985	19374	65768	176075	0	0	0	65768	176075
14	13.0	135000	337500	464985	19374	65768	176075	0	0	0	65768	176075
15	13.0	135000	337500	464985	19374	65768	176075	0	0	0	65768	176075

ASSUMPTIONS FOR THIS RUN:
NO NEW BURSARIES, $135 MILLION IN NEW LOANS EACH YEAR
INTEREST RATE IS 13% EACH YEAR, TERM OF LOANS IS 6 YEARS
50% OF LOANS BECOME 'B' LOANS (I.E. ARE BEING REPAYED) AFTER 2 YEARS, THE OTHER 50% AFTER 3 YEARS.
THERE IS A 4% DEFAULT RATE ON ALL LOANS EACH YEAR.

THE OFFICE OF INSTITUTIONAL RESEARCH AND PLANNING, JUN 5, 1980

PROJECTED COSTS ($1000'S) OF FUTURE LOAN-BURSARY MIXES IN STUDENT ASSISTANCE

YEAR	INT	NEW LOANS	'A' AMOUNT	'B' AMOUNT	NET DEFAULT	GOVT COST	STUDENT COST	NEW BURSARIES	GOVT COST	STUDENT COST	--TOTAL COSTS-- GOVT	STUDENTS
1	13.0	0	0	0	0	0	0	135000	135000	0	135000	0
2	13.0	0	0	0	0	0	0	135000	135000	0	135000	0
3	13.0	0	0	0	0	0	0	135000	130680	4320	130680	4320
4	13.0	0	0	0	0	0	0	135000	121770	13230	121770	13230
5	13.0	0	0	0	0	0	0	135000	112320	22680	112320	22680
6	13.0	0	0	0	0	0	0	135000	102330	32670	102330	32670
7	13.0	0	0	0	0	0	0	135000	91800	43200	91800	43200
8	13.0	0	0	0	0	0	0	135000	80730	54270	80730	54270
9	13.0	0	0	0	0	0	0	135000	69120	65880	69120	65880
10	13.0	0	0	0	0	0	0	135000	57240	77760	57240	77760
11	13.0	0	0	0	0	0	0	135000	51300	83700	51300	83700
12	13.0	0	0	0	0	0	0	135000	51300	83700	51300	83700
13	13.0	0	0	0	0	0	0	135000	51300	83700	51300	83700
14	13.0	0	0	0	0	0	0	135000	51300	83700	51300	83700
15	13.0	0	0	0	0	0	0	135000	51300	83700	51300	83700

ASSUMPTIONS FOR THIS RUN:
NO NEW LOANS, $135 MILLION IN NEW BURSARIES EACH YEAR
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ONCE AN AMOUNT HAS ENTERED THE TAXATION PHASE, 40% OF THE AMOUNT IS ADDED TO TAXABLE INCOMES FOR EACH OF EIGHT YEARS.
THE MARGINAL FEDERAL TAX RATES OF STUDENTS PAYING THE EIGHT YEARS OF TAX ON A BURSARY INCREASE FROM 16% FOR THE FIRST YEAR TO 22% FOR THE SEVENTH AND EIGHTH YEARS.